

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 /083 W

-----212335Z 054911 /15

P R 212123Z APR 77

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 4507

INFO AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

C O N F I D E N T I A L LIMA 3248

E.O. 11652: GDS

TAGS: PINT, PE

SUBJ: RUMORS OF HIGH-LEVEL CHANGES IN GOP PERSIST: ECONOMIC
POLICIES CONTINUE UNDER ATTACK

REF: LIMA 2651, LIMA A-083

SUMMARY: LIMA IS FULL OF RUMORS OF IMPENDING POLITICAL AND ECONOMIC
EVENTS INCLUDING CABINET CHANGES. THERE IS SPECULATION THAT MINISTER
OF ECONOMY BARUA AND PRESIDENT OF CENTRAL BANK SANTISTEVAN, WHO
WAS CHIEF NEGOTIATOR IN MUCH-CRITICIZED IMF DISCUSSIONS, MUST
SOON BE REPLACED. ONE RUMOR IS THAT SENIOR GOP GENERALS AND
JUNTA ARE PRESSURING PRESIDENT MORALES BERMUDEZ TO DUMP ECONOMIC
TEAM AS PRICE FOR STAYING IN OFFICE. SUBSTANCE OF RUMORS CANNOT
BE EASILY VERIFIED, BUT THEIR VERY PERSISTENCE SUGGESTS THAT
GOP IN IN THROES OF INTERNAL DISAGREEMENT CONCERNING ECONOMIC
POLICIES AND THAT MAJOR ECONOMIC AND POLITICAL POLICY DECISIONS
ARE DUE. END SUMMARY.

1. IN THE WAKE OF RECENT IMF VISIT WITH PRESS REVELATIONS
ON STIFF IMF DEMANDS (LIMA A-083), LIMA IS ALIVE WITH RUMORS OF
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CRISES -- FINANCIAL, ECONOMIC AND POLITICAL. TOUGH NEW ECONOMIC
AUSTERITY MEASURES INCLUDING A GASOLINE PRICE HIKE ARE ALMOST
TAKEN FOR GRANTED BY LIMENOS (SOLDIERS APPEARED OUTSIDE MANY
SERVICE STATIONS APRIL 19 PERHAPS IN ANTICIPATION OF PANIC GASOLINE
BUYING). THE LONG-AWAITED AND/OR FEARED LABOR STABILITY LAW,
CONSIDERED FAVORABLE TO BUSINESS, IS DUE FOR PROMULGATION. A
NEGATIVE LABOR REACTION SEEMS ASSURED (THE MOSCOW-LINE CGTP

HAS ALREADY HELD A PROTEST STREET DEMONSTRATION), ALTHOUGH THIS LABOR REACTION NEED NOT INCLUDE MAJOR STRIKE ACTION SINCE TRADE UNIONS ARE STILL PROMISED A JULY 1 RETURN TO COLLECTIVE BARGAINING.

2. THE IMF CONTROVERSY AND SPATE OF RUMORS OVER POSSIBLE AUSTERITY MEASURES HAVE LED TO SPECULATION OF A MAJOR GOVERNMENT SHAKE-UP. THE IMMINENT RESIGNATION OF FINANCE MINISTER BARUA IS NOW TAKEN FOR GRANTED IN SOME QUARTERS, ALTHOUGH AN ARGUMENT COULD BE MADE FOR RETAINING HIM THROUGH COMPLETION OF THE IMF NEGOTIATIONS. IT SEEMS CERTAIN THAT BARUA AT LEAST AND PERHAPS THE ENTIRE ECONOMIC TEAM INCLUDING CENTRAL BANK OFFICIALS MUST BECOME THE SCAPEGOAT FOR ECONOMIC DIFFICULTIES. ONE RUMOR IN BANKING CIRCLES IS THAT MILITARY CHIEFS MET WITH PRESIDENT MORALES BERMUDEZ OVER LAST WEEKEND IN A CONFRONTATION CONCERNING ECONOMIC POLICY (THE ARMY REGIONAL COMMANDERS AND TOP GENERALS WERE OSTENSIBLY IN LIMA FOR A HIGHLY-PUBLICIZED MILITARY UNITY CEREMONY). MORALES BERMUDEZ IS SAID TO HAVE SUBMITTED HIS RESIGNATION. THIS REPORTEDLY WAS NOT ACCEPTED BY MILITARY COMMANDERS BUT THEY DEMANDED AS A CONDITION OF NON-ACCEPTANCE THE DEPARTURE OF BARUA ALONG WITH A NEW ECONOMIC POLICY WHICH WOULD STIMULATE THE ECONOMY AS WELL AS PERMIT ADDITIONAL MILITARY PURCHASES.

3. THAT THE POLITICAL SPECULATION EXTENDS TO THE VERY TENURE OF PRESIDENT MORALES BERMUDEZ IS NOT SURPRISING. THE PERIOD OF DECISION ON THE PRESIDENTIAL SUCCESSION QUESTION (JANUARY 1978 IS MORALES BERMUDEZ' MILITARY RETIREMENT DATE) IS NEAR. ONE ACCION POPULAR SOURCE TOLD EMBOFF THAT THE PRESIDENT'S SON CONFIDENTIAL

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SIDERED THE DAYS BEFORE MAY 1 CRUCIAL FOR DETERMINING MORALES BERMUDEZ' FUTURE. THE SON ALLEGEDLY STATED THAT MORALES BERMUDEZ HAS PERSONALLY CONCLUDED THAT THAT HE SHOULD REMAIN IN OFFICE IN ORDER TO ENSURE NATIONAL UNITY IN A PERIOD OF TRANSITION TOWARD CIVILIAN RULE. OTHER SENIOR MILITARY OFFICERS MAY OR MAY NOT AGREE WITH THAT JUDGEMENT. SEVERAL INCLUDING ARMY CHIEF OF STAFF GENERAL PEDRO RICHTER, INTERIOR MINISTER GENERAL LUIS CISNEROS, AND MINISTER OF INDUSTRY GENERAL GASTON IBANEZ O'BRIEN ARE SAID TO BE AMBITIOUS TO THE POINT OF SEEKING THE PRESIDENCY. ONE RECENT RUMOR PRESUMABLY FLOATED BY AN INTERESTED PARTY HOLDS THAT MORALES BERMUDEZ, WARY OF THE AMBITIOUS RICHTER (NOW FOURTH IN LINE TO THE PRESIDENCY AND PERHAPS TO BE NAMED PRIME MINISTER IN JANUARY) ATTEMPTED TO NOMINATE RICHTER TO THE INTER-AMERICAN DEFENSE BOARD. ACCORDING TO THIS ACCOUNT, RICHTER'S REFUSAL TO BE PUSHED OUT OF THE RUNNING FOR POSSIBLE SUCCESSION HAS INCREASED POLITICAL TENSIONS WITHIN THE GOP.

4. THERE IS INCREASING TALK OF MORALES BERMUDEZ' INDECISIVENESS

IN THE FACE OF ECONOMIC CRISIS (THIS RESEMBLES CLAIMS THAT HE WAS INDECISIVE IN THE PERIOD BEFORE THE JULY 1976 POLITICAL CRISIS). HE IS SAID TO BE DRINKING HEAVILY. ALL PERU WITNESSED AN EMOTIONAL AND APPARENTLY INEBRIATED MORALES BERMUDEZ ON THE FIELD FOLLOWING A RECENT PERUVIAN VICTORY OVER CHILE IN A KEY SOCCER MATCH. A WEEKLY NEWS MAGAZINE PUBLISHED A CARICATURE OF MORALES BERMUDEZ (IN FOOTBALL JERSEY NOT MILITARY UNIFORM) WITH A LIQUOR BOTTLE SUSPENDED OVER HIS HEAD.

5. IF THE FACT THE GOP PRESIDENT IS BEING SUBJECTED TO PRESSURES TO STEP DOWN (PROBABLY ON HIS JANUARY 1978 RETIREMENT DATE RATHER THAN NOW) AND IF HE IS CONVINCED OF THE NEED TO REMAIN IN OFFICE, THEN MORALES BERMUDEZ CAN BE EXPECTED TO EMPLOY HIS NOW GENERALLY ACKNOWLEDGED SKILL IN POLITICAL INTRIGUE. WITH A REVOLUTION WHICH HAS LOST ITS REFORMIST RAISON D'ETRE AND WHICH IS COMMITTED TO A GRADUAL TRANSITION TOWARDS CIVILIAN RULE, THE ARGUMENT THAT PRESIDENTIAL CONTINUITY IS ESSENTIAL FOR CONFIDENTIAL

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POLITICAL STABILITY CAN BE A COMPELLING ONE. MORALES BERMUDEZ IS PERSONALLY ENGAGED IN A PUBLIC DIALOGUE WITH CIVILIANS AND HE RECENTLY ANNOUNCED THAT THIS DIALOGUE WILL INCLUDE POLITICAL PARTIES. POLITICALLY DISPARATE GROUPS (FROM APRA TRADE UNIONS TO THE PERUVIAN LAWYERS' ASSOCIATION HEADED BY A VELASCO ERA PRESIDENT) HAVE CALLED FOR PUBLIC SUPPORT FOR MORALES BERMUDEZ IN THE TRANSITION TO CIVILIAN RULE. THIS CIVILIAN EXPRESSION OF SUPPORT COULD BENEFIT MORALES BERMUDEZ IN ANY INTRA-MILITARY DELIBERATIONS REGARDING HIS PRESIDENTIAL TERM.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Concepts: LOANS, NEGOTIATIONS, PROGRAMS (PROJECTS)
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LIMA03248
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
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Format: TEL
From: LIMA
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770434/aaaabczy.tel
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Litigation History:
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Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 LIMA 2651, 77 LIMA A-83
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2739764
Secure: OPEN
Status: NATIVE
Subject: RUMORS OF HIGH-LEVEL CHANGES IN GOP PERSIST: ECONOMIC POLICIES CONTINUE UNDER ATTACK
TAGS: PINT, PE
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/8cf1b0a1-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009